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TRANSITION TO A SINGLE-CURRENCY SYSTEM

Consultations with Member States on the definition of major objects of expenditure

Note by the Director-General

Reports on the continuation of consultations with Member States conducted in compliance with Programme and Budget Committee conclusion 2000/4.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 7	2
Chapter			
I.	PRINCIPAL CHANGES, BENEFITS AND EXAMPLES OF THE PROPOSED NEW GROUPING	8 - 13	2
II.	CONCLUSION	14 - 15	3
III.	ACTION REQUIRED OF THE BOARD	16	3
Annex			
	Approved expenditure (regular and operational budgets) by major object of expenditure for 2000-20001		4

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Introduction

1. Financial regulation 3.4 stipulates that UNIDO's regular budget shall also be presented by major objects of expenditure. The definition currently in use for major objects of expenditure originates from a standard defined by the United Nations more than 30 years ago, which no longer meets operational requirements.

2. In connection with the introduction of the new financial system, which requires the redesign of the charts of accounts and the forthcoming introduction of a single-currency system of budgeting, which also necessitates the revision of objects of expenditure, it seemed opportune to introduce a new grouping of the objects of expenditure for the presentation of the budget proposal for the biennium 2002-2003.

3. Accordingly, a pre-session document was submitted to the Programme and Budget Committee (PBC.16/9). Further clarification was provided in the form of background information. Member States examined the proposal before and during the sixteenth session of the Programme and Budget Committee, and the Secretariat received various recommendations on how to improve the concept.

4. Furthermore, the Director of External Audit informed representatives of Member States that the proposed grouping would lead to the rationalization of major objects of expenditure, allowing the Secretariat to budget and report all related expenditures under the appropriate major objects of expenditure. In general, this would enable the Organization to carry out its activities in a more effective and efficient manner without reducing control by Member States.

5. As a result of its deliberations, the Programme and Budget Committee, in its conclusion 2000/4, paragraph (g), requested the Director-General to continue consultations with Member States on the definition of major objects of expenditure and to present the issue to the forthcoming session of the Industrial Development Board.

6. Accordingly, the Secretariat organized a series of consultations on the subject with representatives of all regional groups. During these consultations the merits of the proposed changes were discussed at length, together with procedural aspects of their approval. The proposal was further improved based on advice received from representatives of Member States, and will be discussed with permanent missions, together with the present document, on 24 October 2000.

7. Also during the consultations it was confirmed by the Secretariat that the new major objects of expenditure coding would first be introduced in the preparation of the budget proposals for the biennium 2002-2003. Ultimately, the new grouping would be approved together with, and as an integral part of, the programme and budgets, 2002-2003.

I. PRINCIPAL CHANGES, BENEFITS AND EXAMPLES OF THE PROPOSED NEW GROUPING

Merger of the three smallest categories into operating costs

8. "Contractual services" (covering external printing and public information services provided by outside companies), "supplies and materials", and "acquisition of furniture and equipment" are three different major objects of expenditure under the current structure, representing together one per cent of the gross combined regular and operational budgets (PBC.16/9, table). These three categories are operating costs by nature.

9. The major benefit of merging these small categories into the operating costs can be demonstrated as follows: the decision as to whether a piece of old equipment would be repaired (maintenance, which is part of general operating costs - 400) or replaced (acquisition of furniture and equipment - 600) should not depend on the availability of funds under a certain major object category, but on the economy of the action itself.

"Other expenditures" redistributed among the real categories

10. The "other" category under the current major objects of expenditure structure represents 9.7 per cent of the gross combined budgets (PBC.16/9, table). The items under this category would naturally belong to various major object groups; the reason for having them under "others" was the implementation modality through a joint service.

11. The best example of the disadvantage in the present approach is the distinction between printing funds under the current "contractual services" major group for external printing, and funds under the "other expenditures" major group for printing through the joint printing service provided by the International Atomic Energy Agency (IAEA). A similar example is the provision of training funds under staff costs and also under the "other" category as a contribution to the joint

language training programme provided by the United Nations Office at Vienna (UNOV).

Communication costs merged into information technology-related costs

12. As a result of technological developments in this area, it is no longer possible to distinguish between communication costs and IT costs. As an example, the subscription fee to the Internet service provider is not only for connecting computers (IT-related costs), but also for communication purposes (e-mail, phone-over-Internet, fax delivery through Internet, etc.). Very often regular telephone connections (currently budgeted as communication costs) are used to establish data transfer between computers, and there is no way to determine which portion of the connection was used for voice communication or for data exchange.

13. By moving communication costs into the IT major group of expenditure, UNIDO would be in line with the technical reality.

II. CONCLUSION

14. The annex to the present document illustrates the proposed changes on the basis of the combined gross budgets for the biennium 2000-2001. Accordingly, the revised list of major objects of expenditure would have the following five items:

(a) Staff costs;

(b) Official travel;

(c) Operating costs;

(d) Information and communication technology;

(e) Regular Programme of Technical Cooperation (RPTC) and Industrial Development Decade for Africa (IDDA) supplementary activities.

15. The reduction in the number of major objects of expenditure categories from nine to five would put UNIDO in a similar position to IAEA (five categories: (a) staff costs; (b) travel; (c) direct costs; (d) laboratory activities; (e) shared services) and UNOV (four categories: (a) posts controlled by staffing table; (b) compensation of non-United Nations officials; (c) hospitality; (d) other expenditures).

III. ACTION REQUIRED OF THE BOARD

16. The Board may wish to consider the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report by the Director-General on the definition of major objects of expenditure (IDB.23/15);

"(b) Authorizes the Director-General to apply the new definition of major objects of expenditure as described in document IDB.23/15 to the programme and budget proposals for the biennium 2002-2003 and subsequent bienniums."

Annex
Approved expenditure (regular and operational budgets)
by major object of expenditure for 2000-20001

(In thousands of dollars at US$ 1 = ATS 12.90)

Major object of expenditure (current)	2000-2001 approved budget (US$)	Major object of expenditure (new)	2000-2001 approved budget (US$)
100 Staff costs	**124,724.2**	**1000 Staff costs**	**125,402.2**
+450 Hospitality	58.1		
+933 Joint medical services (IAEA)	557.9		
+944 Joint language training (UNOV)	62.0		
	125,402.2		
200 Official travel	**2,430.5**	**2000 Official travel**	**2,430.5**
300 Contractual services	**520.1**	**3000 Operating costs**	**48,084.0**
400 General operating expenses	**30,351.9**		
500 Supplies and materials	**785.9**		
600 Acquisition of furniture and equipment	**623.1**		
-440 Communication	-1,535.3		
-450 Hospitality	-58.1		
+932 Joint printing and reproduction (IAEA)	836.5		
+934 Joint library services (IAEA)	1,300.2		
+945 Joint meetings planning and services (UNOV)	302.3		
+946 Joint interpretation services (UNOV)	336.8		
+947 Joint security and safety services (UNOV)	2,480.3		
+960 Joint activities provided by UN bodies	701.5		
+970 Joint language and documentation services (UNOV)	5,438.8		
+991 Contribution to joint language & doc. serv. (UNOV)	50.0		
+992 Reimbursement to Major Repair Fund	600.0		
+993 Essential requirements - BMS	5,350.0		
	48,084.0		
700 EDP non-staff costs	4,150.7	**4000 Information and communication technology (non-staff costs)**	6,773.2
+440 Communication	1,535.3		
+948 Joint communication services	1,087.2		
	6,773.2		
800 Technical cooperation and IDDA	**13,875.6**	**5000 Technical cooperation and IDDA**	13,875.6
900 Other expenditures	**19,103.5**		
-932 Joint printing and reproduction (IAEA)	-836.5		
-933 Joint medical services (IAEA)	-557.9		
-934 Joint library services (IAEA)	-1,300.2		
-944 Joint language training (UNOV)	-62.0		
-945 Joint meetings planning and services (UNOV)	-302.3		
-946 Joint interpretation services (UNOV)	-336.8		
-947 Joint security and safety services (UNOV)	-2,480.3		
-948 Joint communication services (UNOV)	-1,087.2		
-960 Joint activities provided by UN bodies	-701.5		
-970 Joint language and documentation services (UNOV)	-5,438.8		
-991 Contribution to joint language & doc. serv. (UNOV)	-50.0		
-992 Reimbursement to Major Repair Fund	-600.0		
-993 Essential requirements - BMS	-5,350.0		
	0.0		
TOTAL UNIDO	**196,565.5**	**TOTAL UNIDO**	**196,565.5**